HVGP CHARTERED PROFESSIONAL ACCOUNTANTS Hufton Valvano Grover Philipp LLP

December 9, 2022

December 31, 2022 is fast approaching… see below for a list of tax planning considerations. Please contact us for further details or to discuss whether these may apply to your tax situation.

Please contact our office if you have any questions, we are always happy to help!

Important dates:

Personal tax:

- Last day to contribute to RRSP for it to be deductible for the 2022 tax year is March 1, 2023. Also consider having the higher income earning individual contributing to their spouse's RRSP via a "spousal RRSP" for greater tax savings.
- Last day to realize capital losses to be able to offset capital gains from the 2022 tax year is December 28, 2022, to account for the settlement period of two business days.
- If you have entered a prescribed rate loan during the year, a reminder that interest must be paid by January 30th, 2023

Corporation tax:

- Payroll remittances for bonuses paid in December 2022 may be due shortly after the year-end depending on your remitter status, don't forget to remit on time!

UPDATES AND REMINDERS FOR 2022

Individuals:

- **Underused Housing Tax (UHT) Act** imposes a national annual 1% tax on the value of non-resident (for immigration purposes), non-Canadian owned residential real estate considered to be vacant or underused. In general, no disclosure or tax is required for citizens, permanent residents, and publicly traded corporations. However, some taxpayers, such as private corporations and trusts, must file an annual declaration, even if they meet an exemption such that they do not need to pay the 1% tax. Legal ownership of real estate must be considered as of December 31, 2022, with filings and/or taxes first being due on April 30, 2023.

  There are late filing penalties and you may not be able to claim an exemption if filed late. The minimum penalty is $5,000 for individuals, and $10,000 for other than individuals. Please consult our office for more information on UHT exemption criteria and penalties.
- **Tax-free Canada dental benefit** payments of up to $650 per child per year are available to cover dental expenses (as of October 1, 2022) for children under 12 if they do not have dental insurance coverage. The benefit is available to families with an adjusted net income less than $90,000. Applications can be made online through CRA's MyAccount.
- **The tax-free Canada housing benefit** provides a one-time top-up of $500 to low-income renters (those with adjusted net income below $35,000 for families or $20,000 for individuals). Applications can be made online through CRA's MyAccount.
- **COVID Emergency or Recovery Benefits** – If you received amounts under the following programs; Canada Recovery Sickness Benefit (CRSB) or Canada Recovery Caregiving Benefit (CRCB) in 2022, you will receive a T4A slip. You must report these amounts on your 2022

income tax return. In many cases, while some tax was withheld on these benefits, it will not be sufficient to cover the tax owing.

- **Employment Insurance (EI) Clawback** – Amounts received from EI are subject to a clawback $0.30 of every dollar of your Net Income in excess of $75,375.
- **Old Age Security (OAS) Clawback** - A senior whose 2022 net income exceeds $81,761 will lose all, or part, of their OAS pension. Senior citizens will also begin to lose their age credit if their net income exceeds $39,826. Consider limiting income over these amounts. Another option would be to defer receiving OAS receipts (for up to 60 months) if it would otherwise be eroded due to high-income levels.
- **COVID Emergency or Recovery Benefits Repayment** – Amounts repaid under the Canada Emergency Response Benefit (CERB), Canada Emergency Student Benefit (CESB), Canada Recovery Benefit (CRB), Canada Recovery Sickness Benefit (CRSB) or Canada Recovery Caregiving Benefit (CRCB) are deductible. You can choose to claim the deduction in the year you made the repayment or in the year you received the benefits.
- **Foreign Property Reporting** – If you held specified foreign property (examples – tangible property, funds deposited outside of Canada, shares of a company that is non-resident in Canada such as US public companies) with a total cost in excess of $100,000 at any time during 2022, you are required to file form T1135 – Foreign Income Verification Statement.
- **Foreign Affiliate Reporting** – If you and those related to you, combined, owned at least 10% of any class of shares of a foreign corporation, you are required to complete form T1134. A new T1134 form has been released last year and you must use the new form for this year.
- **Voluntary Disclosure -** If income, forms, or elections have been missed in the past, a voluntary disclosure to CRA may be available to avoid penalties.
- **Reporting the Sale of Your Principal Residence** – You are required to report basic information when you sell your principal residence (date of acquisition, proceeds on sale and address).
- **Recordkeeping** - Certain expenditures made by individuals by December 31, 2022 will be eligible for 2022 tax deductions or credits, including digital news subscriptions, moving expenses, labour mobility tax credit expenditures (NEW), child care expenses, charitable donations, political contributions, registered journalism organization contributions, medical expenses, alimony, eligible employment expenses, union, professional or like dues, carrying charges, air quality improvement expenditures (NEW) and interest expense. Ensure you keep all receipts that may relate to these expenses.
- **Fertility treatment**s - Certain expenditures for surrogate mothers and fertility treatments are proposed to be eligible for the medical expense tax credit as of January 1, 2022.
- **Non-deductible Interest -** Consider restructuring your investment portfolio to convert non-deductible interest into deductible interest. It may also be possible to convert personal interest expense, such as interest on a house mortgage or personal vehicle, into deductible interest.
- **Allowable Business Investment Loss (ABIL) -** If you have equity investments or loans made to a Canadian small business that has become insolvent or bankrupt, an ABIL may be available. For loans to corporations to be eligible, the borrower must act at arm's length. ABILs can be used to offset income beyond capital gains, such as interest, business, or employment income.

- **Tax-Free Savings Account (TFSA)** - Individuals 18 years of age and older may deposit up to $6,000 into their TFSA in 2022. An additional $6,500 may be contributed starting on January 1, 2023.
- **Canada Education Savings Grant (CESG)** for registered education savings plan (RESP) contributions equal to 20% of annual contributions for children (maximum $500 per child per year) is available. In addition, lower-income families may be eligible to receive a Canada Learning Bond.
- **Registered Disability Savings Plan (RDSP)** may be established for a person who is under the age of 60 and eligible for the disability tax credit. Non-deductible contributions to a lifetime maximum of $200,000 are permitted. Grants, bonds, and investment income earned in the plan are included in the beneficiary's income when paid out of the RDSP.
- **Canada Pension Plan (CPP)** receipts may be **split** between spouses aged 65 or over (application is required). Also, consider if there are benefits to receiving CPP early or late.
- **U.S. Residents** – Consider your U.S. filing obligations, information exchange agreements have increased the flow of information between CRA and the IRS.
- **Interest-free loans** of up to $40,000 are available to homeowners and landlords who undertake retrofits identified through an authorized EnerGuide energy assessment.
- **Proposed tax measures affecting individuals** *(Bill C-32 has not been passed yet, more information will be provided once it is available):*
    - **Tax-Free First Home Savings Account (FHSA)** – The proposal creates tax-free FHSA for 2023 and beyond to help first-time home buyers. The lifetime limit on contributions would be $40,000, subject to an annual contribution limit of $8,000. Unused annual contribution room may carry forward, but it will only start accumulating after you have opened a FHSA account. Contributions paid will be deductible. Income earned in the account and eligible withdrawals will not be taxable. You may therefore consider delaying the purchase of an eligible home.
    - **Enhanced Home Buyers' Tax Credit** - Budget 2022 proposed to double the existing Home Buyers' Tax Credit amount, such that tax relief of up to $1,500 can be accessed by eligible home buyers. This proposal is retroactive and applicable for the purchases made during the year 2022.
    - **Multigenerational Home Renovation Tax Credit** - Budget 2022 proposes a new refundable tax credit to support constructing a secondary suite for an eligible person to live with a qualifying relation. This tax credit would provide tax relief of 15% on up to $50,000 of eligible expenditures, providing a maximum benefit of $7,500. Only one qualifying renovation can be claimed and the $50,000 limit is shared between eligible claimants. You may therefore consider qualifying renovations in 2023 or delaying to next year. Be careful however such renovations could result in a change in use of your principal residence, and cause you to lose part of the exemption.
    - **Residential Property Flipping Rule** – A new rule may deem all gains arising from disposition of residential property that was owned for less than 365 days to be business income instead of a capital gain. There are certain exceptions, and this affects dispositions in 2023 and future years.

Corporations:

- **Underused Housing Tax (UHT)** – Please refer to the individual section above if you own a residential property located in Canada through a private corporation.
- **Canada Emergency Business Account (CEBA)** – The deadline for repayment to qualify for a partial loan forgiveness had been extended to December 31, 2023 for qualifying borrowers. Your financial institution will contact you and provide details regarding the new repayment date.
- **Tax on Split Income (TOSI)** – Any income taxed under the TOSI rules is subject to tax at the highest personal marginal tax rates, eliminating any advantage achieved from income splitting.
- **Immediate Expensing of Capital Property of CCPC's** – The Federal Budget last year proposed that fixed asset additions of up to $1.5 million per tax year may be immediately expensed for eligible properties acquired by CCPC's after April 18, 2021 that are available for use before January 1, 2024. This proposal has now been passed with Bill C-19. Consider the timing of any major equipment purchases.

  Some zero-emission electric vehicles purchased by businesses may be eligible for a 100% write-off (limited in some cases to the first $59,000). Alternatively, zero-emission vehicles purchased in 2022 may be eligible for a federal incentive rebate of up to $5,000.
- **Ontario Business Registry** – A reminder that you may need to file your corporation's Ontario annual information return. These are not corporation tax returns and it is a corporate law requirement. Please visit our previous announcement for information on getting your company key and ONe-Key registration.
  https://hvgp.ca/ontario-business-registry-update-december-2021/
- **Proposed enhanced small business deduction limit** – This was proposed by the 2022 federal budget to increase the upper limit of taxable capital from $15 million to $50 million. This would make the small business deduction available to more businesses. Bill C-32 has not been passed yet, we will provide more information as it becomes available.

2022 Remuneration Planning

Higher personal income levels are taxed at higher personal rates; therefore, you may wish to adjust income out of high-income years and into low-income years. This is particularly useful if you are expecting a large fluctuation in income, for example, an impending

- maternity/paternity leave.
- large bonus/dividend; or
- sale of a company or investment assets.

Individuals should consider other costs of additional income, for example an individual with a child may receive reduced Canada child benefit (CCB) payments. Excessive personal income may reduce receipts of OAS, GIS, GST/HST credit and other provincial/territorial programs.

There are a variety of ways to smooth income over several years to ensure an individual is maximizing access to the lowest marginal tax rates. For example,

- Taking more, or less, earnings out of the company.
- Realizing investments with a capital gain/loss. Caution that the loss may be denied if the same security was reacquired within 30 days by yourself or someone affiliated to you.
- Deciding whether to claim RRSP contributions made in the current year or carry forward the contributions.
- Withdrawing funds from an RRSP to increase income. However, care should be given to the loss in the RRSP room based on the withdrawal.
- Deciding on whether to claim CCA on assets used to earn rental/business income.

Dividends paid out to shareholders of a corporation that do not "meaningfully contribute" to the business may result in higher taxes due to the "tax on split income" rules.

Year-end planning considerations not specifically related to changes in income levels and marginal tax rates include:

1) Corporate earnings in excess of personal requirements could be left in the company to obtain a tax deferral (the personal tax is paid when cash is withdrawn from the company). If you have accumulated a large RRSP contribution room, consider declaring a one-time bonus to top-up your RRSP. The bonus would be deductible to your corporation, and the RRSP contribution would offset the bonus income on your personal tax return. Consider CPP remittances on your bonus depending on your salary level.
2) The effect on the "qualified small business corporation" (QSBC) status should be reviewed before selling the shares where large amounts of capital have accumulated. In addition, changes that may limit access to the small business deduction where significant corporate passive investment income is earned should be reviewed.
3) If dividends are paid out of a struggling business with a tax debt that cannot be paid, the recipient could be held liable for a portion of the corporation's tax debt, not exceeding the value of the dividend (Section 160 assessments).
4) Individuals that wish to contribute to the CPP or an RRSP may require a salary to generate "earned income." RRSP contribution room increases by 18% of the previous years' "earned income" up to a yearly prescribed maximum ($29,210 for 2022; $30,780 for 2023).
5) Dividend income, as opposed to a salary, will reduce an individual's cumulative net investment loss balance, thereby potentially providing greater access to the capital gain exemption.
6) Consider paying taxable dividends to obtain a refund from the "refundable dividend tax on hand" account in the corporation. The refund amount may be restricted if "eligible" dividends are paid. Eligible dividends are subject to lower personal tax rates.
7) It is costlier, from a tax perspective, to earn income in a corporation from sales to other private corporations in which the seller or a non-arm's length person has an interest. As such, consideration may be given to paying a bonus to the shareholder and specifically tracking it to those higher-taxed sales. Such a payment may reduce the total income taxed at higher rates.

8) Careful tracking of an individual shareholder's labour and capital contribution to the business, as well as risk assumed in respect of the business, should be maintained in a permanent file. Dividends paid that are not reasonable in respect of those contributions may be considered "split income" and taxed at the highest tax rate. Several other exceptions may also apply.
9) Access to the corporate federal small business deduction is reduced where **more than $50,000 of passive income** is earned in the corporation. Consider whether it is appropriate to remove passive income-generating assets from the corporation and whether a shift in the types of passive assets held is appropriate. In some provinces, it may actually be beneficial to have access to the federal small business deduction restricted.
10) If you provide services to a small number of clients through a corporation (that would otherwise be considered your employer), CRA could classify the business as a **personal services business**. There are significant negative tax implications of such a classification, but there are risk and exposure minimization strategies. The CRA began sending educational review letters to businesses from certain industries requesting to review their documentation. The participation to the educational review is ***voluntary***. Please consult with us for more information.